

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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U.S. Recovery Helps Europe . . .

The U.S. economy, in the sixteenth month of a vigorous and broad-based upswing, is now becoming a factor behind the rekindling of economic activity abroad. Although high interest rates, record unemployment levels and anti-inflationary monetary policies continue to retard recovery in most other industrial nations, the surge of imports into the United States since the fourth quarter of 1982 has provided a strong stimulus toward global economic resurgence. During the first year of the current recovery, U.S. imports of goods and services rose by almost 21 percent in real terms, compared with an average of less than 13 percent for the seven previous postwar upswings (see chart).

Part of this, of course, traces to the strength of the dollar. Although the dollar has weakened by almost six percent since it reached its record trade-weighted peak in January of this year, it is still 20 percent above its level at the beginning of 1982. As a consequence, U.S. merchandise imports have far exceeded exports, not only contributing to the growth of the export sector of our trading partners, but also reducing competition from U.S. exports in their own and in third-country markets.

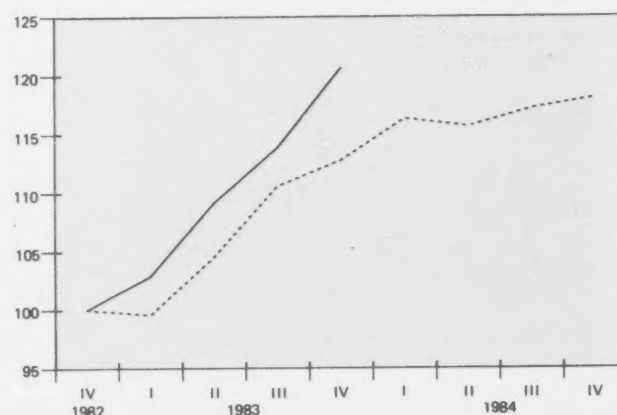
The U.S. in 1983 ran a record merchandise trade deficit with the rest of the world—taking in \$61 billion (balance of payments basis) more in imports than it sent abroad in exports. While the value of imports increased by five percent in dollar terms, the volume of imports, because of the strong dollar, rose by 12 percent. Importantly, the increase in imports in 1983 was more than accounted for by nonpetroleum imports. Indeed, petroleum imports decreased last year in both value and volume terms.

The widespread impact of the flood of imports into the United States can be seen in this country's trade balances with other areas. The traditional U.S. trade surplus with Western Europe, for example, decreased from almost \$7 billion in 1982 to \$1 billion in 1983 and the equally persistent trade deficit with Japan skyrocketed from \$17 billion in 1982 to \$19.5 billion in 1983—a 15 percent jump.

. . . And The LDCs' . . .

The non-oil developing countries, many of which have restricted their imports as a result of their external debt problems while at the same time maximizing their export efforts, have also recorded substantial surpluses in their trade with this country. Mexico's surplus in its trade with the U.S. more than doubled from \$3.8 billion in 1982 to \$7.8 billion in 1983. The other countries of Latin America in the aggregate performed even more impressively, increasing their trade surplus with this country from \$1.6 billion to \$8.4 billion between 1982 and 1983. These surpluses constitute an important contribution to the brightening economic prospects of Latin America.

U.S. REAL IMPORTS OF GOODS & SERVICES:
CURRENT RECOVERY (LINE) VS. AVERAGE OF
PRIOR 7 RECOVERIES (DOT) <TROUGH=100>



The role being played in the improving global economic environment by the U.S. recovery is likely to continue at least through 1984. The most recent batch of U.S. economic statistics shows that the present upswing is both strong and durable. In January the index of leading indicators rose by a hefty 1.1 percent, while even the announcement of a record \$9.5 billion U.S. merchandise trade deficit in January can be viewed as additional testimony to the continuing vigor of U.S. demand. The likelihood that the U.S. this year will run an even larger trade



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deficit further brightens the outlook for other countries' exports.

Many of the other major economies of the Free World are more heavily dependent upon their export sectors for their economic prosperity than is the U.S. Whereas merchandise exports in the last ten years averaged only about seven percent of GNP in the United States, Germany's exports averaged about 24 percent of its GNP and Japan's sales abroad added up to 12 percent of its economy. Other countries are even more export dependent. The Netherlands for example, generated an average of 43 percent of its GDP from exports. Hence, a substantial rise in these countries' exports to the U.S.—the world's largest

trader—is an important factor in their economic recovery. In 1983, Germany's exports to the U.S. rose by 5.8 percent over 1982, while Japan's exports to the U.S. rose 9.1 percent and those of the Netherlands rebounded 18.7 percent.

... Prospects Are Brighter

The growth in exports by the principal industrial nations will, thus, have a large influence on their economic prospects for 1984. After increasing about 1.5 percent year-over-year in 1983, real GNP growth in Germany is expected to rise by a further 2.5 percent this year—low by historic standards but a substantial turnaround after the extended recession of 1981 and 1982. Similarly, in Japan, rising export

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/29/84	% Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	156.241	— .968	+12.513
Loans to Depository Inst.	.507	— .127	— .203
Float	1.587	+ .585	— .781
Total Reserve Bank Credit	166.455	— .350	+10.666
Treasury Deposits with			
Federal Reserve Banks	4.415	— .449	+ 1.519
Currency in Circulation	166.888	+ .449	+13.577
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.391	+ 2.741	+ 6.950
Member Bank Reserves:			
Total Reserves Held	35.887	— .495	— .731
Excess (Deficiency)	.664	— .514	+ .130
Net Free Reserves	.282	— .242	+ .120
% Change Since			
Three Months Ago* Year Ago			
Monetary Aggregates †			
M1 (2/20/84)	534.7	‡	‡
M2 (January '84)	2,206.0	+ 7.2	+ 9.3
M3 (January '84)	2,722.5	+ 9.8	+ 9.3
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Data unavailable due to revisions.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 3/2/84			
‡ U.S. Treasury Bills	9.15%	9.30%	9.35%
* Federal Agencies	9.65	9.95	10.10
* Project Notes—Taxfree (46% Taxable Equivalent)	9.35	9.72	10.65
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.73	9.92	10.45
‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.35%	Apr.	9.52%
15- 29 days	9.40	May	9.52
30- 59 days	9.45	Jun.	9.52
60- 89 days	9.45	Jul.	9.52
90-179 days	9.30	Aug.	9.52
180-239 days	9.00	Sep.	9.52
240-270 days	9.00		
‡ Industrial Paper—Prime		† Federal Funds	
30- 89 days	9.45%	Effective Rate	9.80%
90-120 days	9.45		
‡ Discount basis.		* Subject to availability.	† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	\$ 3,437	\$ 3,362	\$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	\$ 1,572	\$ 1,553	\$ 1,481
Percent Change, Annual Rate	4th Q'83	4.9	7.6	— 1.3
Change in Consumer Prices (new series)*	Jan '84	7.2%	2.4%	3.6%
Change in Producer Prices*	Jan '84	7.2%	1.2%	— 8.4%
Civilian Employment (Thousands of Persons) †	Jan '84	103,190	102,941	99,154
Unemployment as % of Civilian Labor Force †	Jan '84	8.0%	8.2%	10.4%
Personal Income*	Jan '84	\$ 2,889	\$ 2,858	\$ 2,653
Leading Indicators Composite Index (1967=100) †	Jan '84n	164.7	162.9	145.2
Industrial Production Index (1967=100) †	Jan '84	158.1	156.4	137.4
Net Change in Consumer Installment Credit †	Dec '83	\$ 6.61	\$ 4.67	\$ 2.42
U.S. Merchandise Trade Balance †	Jan '84n	—\$ 9.47	—\$ 6.74r	—\$ 3.84
Plant and Equipment Expenditures*	1st Q'84	\$323.07 (a)	\$321.60 (a)	\$293.03
Private Housing Starts (Thousands of Units)*	Jan '84	1,915	1,666	1,632
New Construction Expenditures*	Jan '84n	\$ 281.8	\$ 277.8r	\$ 247.9
Total Business Inventories †	Dec '83	\$ 520.0	\$ 518.1	\$ 511.9
Total Business Sales †	Dec '83	\$ 395.9	\$ 386.6	\$ 338.4

*Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.

sales to the U.S. and elsewhere, along with reviving domestic demand, will strengthen the Japanese economy. After three percent growth in 1983, Japan's real GNP should expand by some 4½ percent in 1984.

With the U.S., German and Japanese economies (along with others) pulling in tandem, the prospects for the developing countries (LDCs) will improve as well. Already the non-oil developing countries have sharply increased their exports to the U.S. In 1983 exports of the non-oil LDCs to the U.S. rose by over 14 percent, with Brazil increasing its exports by almost 16 percent. Both Brazil and Mexico, through harsh internal policy measures, generated impressive trade surpluses of an estimated \$6.5 billion and

\$12.5 billion respectively in 1983, and are expected to do as well or better this year. While Brazil may again experience a decline in its GNP of perhaps one percent this year, Mexico's real GNP should see growth of one percent.

With prospects bright for continued strong growth in the U.S. and Japan, and with a nascent recovery in the industrial countries of Western Europe, the demand for the exports of the LDCs can be expected to rise rapidly, helping those countries to participate in the improved global economic climate. If the U.S. is able to sustain its cyclical upturn into 1985 and beyond, it will create a firm foundation for a return to sound economic growth worldwide. **[E]**

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Time Deposits of \$100,000 or more			
Weekly Reporting Banks			
Nationwide (2/15/84)	140,608	- 124	-26,379
New York City (2/22/84)	28,361	- 238	-12,780
Commercial Paper (2/22/84)	190,637	+ 1,664	+22,371

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
	Latest Week	Change Since	
		Week Ago	Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (2/15/84)	222,919	+ 2	NA*
New York City (2/22/84)	58,006	+ 244	NA*
Total Loans and Leases Gross Adjusted			
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (2/15/84)	580,626	+ 5,209	NA*
New York City (2/22/84)	132,976	- 207	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 3/2/84	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Billst	9.15%	+ .05	+ .88
180-Day Billst	9.25	- .01	+ .80
Longest Billst	9.30	-0-	+ .66
Recent Issues:			
107/8s 2/28/86	10.97	- .01	
111/4s 12/31/87	11.55	+ .02	
113/4s 11/15/93	12.04	+ .01	
12s 8/15/13	12.15	-0-	
Municipals:			
Bond Buyer-20 Bond Index* (3/1/84)	9.86%	+ .06	+ .82
Blue List Total (\$ Million)	\$1,390	- \$ 26	+ \$ 227
30-Day Visible Supply (\$ Million)	\$2,265	+ \$345	- \$1,173
Total	\$3,655	+ \$319	- \$ 946
Corporates:			
Moody's Aa Composite (3/1/84)	12.99%	+ .20	+ .74
30-Day Visible Supply (\$ Million)	\$3,140	-0-	+ \$2,257
Stocks:			
Dow-Jones Averages:			
Industrials	1,171.48	+ 6.38	+ 30.52
Transportation	520.58	+ 9.69	+ 9.46
Utilities	129.38	+ 4.33	+ .09
65 Stocks	461.94	+ 5.99	+ 10.24
Standard and Poor's 500 Stocks	159.24	+ 1.73	+ 5.57
N.Y.S.E. Composite Index	91.67	+ 1.18	+ 3.04
N.Y.S.E. Avg. Daily Vol. for Week (000's)	94,738	+ 3,380	- 6,428

* 46% Taxable equivalent 18.26%.

† Bond equivalent.

International Rates

	Friday 3/2/84	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.63%	9.56%
1 month	9.81	9.81
3 month	10.06	10.13
6 month	10.31	10.38
1 year	10.81	10.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.80%	11.72%
Long Term (7 to 15 yrs.)	11.95	11.91
FOREIGN EXCHANGE SPOT RATES		
New York Opening	U.S. \$	Currency
(3/2/84)	Equivalent	Per U.S. \$
Belgium	.01888	52.96
Canada	.7995	1.2507
Denmark	.1043	9.5900
France	.1255	7.9650
Germany	.3868	2.5850
Italy	.0006205	1611.50
Japan	.004290	233.08
Mexico	.005874	170.25
Netherlands	.3428	2.9175
Switzerland	.4626	2.1615
U.K.	1.4815	.6750

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To build solidly on this growth, the newly established Manufacturers Hanover Mortgage Securities Corporation will enable us to market mortgage-backed securities more effectively. Our new Wholesale Division allows us to expand our aggressive purchased servicing activities. And, the 28-office MHMC branch network, with state-of-the-art communications capability, continues to expand our market and better serve our customers, nationwide.

No, we haven't arrived. But we have passed through crossroads leading to new eras of planned growth. And, as in the past, our basic building blocks continue to be Quality, Loyalty and Consistency. Some things shouldn't change.



**MANUFACTURERS HANOVER
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